

**701—16.52(422,423) Sales of prepaid merchandise cards.** Sales of prepaid merchandise cards (other than prepaid telephone calling cards, see 16.51(3) above) are not sales of tangible personal property and are not sales which are subject to Iowa tax. If a purchaser uses a prepaid merchandise card to purchase taxable tangible personal property or taxable services, sales tax is computed on the gross receipts at the time of the sale and deducted from the prepaid amount remaining on the merchandise card.

EXAMPLE: Customer A purchases a prepaid merchandise card from ABC Clothing Company in the amount of \$200.00. A purchases a sweater for \$50.00 from ABC Clothing. ABC Clothing Company will debit A's card \$52.50 ( $\$50.00 \times 1.05$ ) or \$53.00 ( $\$50.00 \times 1.06$ ) if local option tax is applicable.

This rule is intended to implement Iowa Code sections 422.42 and 422.43.